EIRP 2013
THE 8TH EDITION OF THE INTERNATIONAL CONFERENCE
EUROPEAN INTEGRATION
REALITIES AND PERSPECTIVES

Foreign Direct Investments – Challenges and Perspectives for Romania

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Abstract: In the context of globalization of markets, foreign direct investments have an important role in terms of supporting endogenous growth factors, on the one hand and the circuit of financial flows between countries, on the other hand. If we refer to the effects of the economic crisis on economies, ISD may represent capital infusion instruments for affected economic sectors, contributing to faster recovery of economic gaps that occurred. By studying this topic of FDI we consider the great impact and benefits that they can bring, being essential element in the development of a country, as in the case of Romania. This paper presents the main trends of international financial flows for the period 2008-2012, whereas in the context of economic globalization requires an overall analysis of country-specific FDI performance as it helps in improving and optimizing strategies adopted by foreign transnational companies. In order to underline their importance and necessity, we study the situation of Romania in this field by analyzing the performance of countries in attracting direct foreign investments. Following the study conducted it has been made a number of conclusions and recommendations on how to improve this process in Romania. Academics, researchers, administrators of the university all have a great responsibility on how they support to attract FDI in Romania, even if we refer to work force that they form, the ideas they can provide in supporting and developing this process or by sharing the "know-how" related to the many fields that FDI can have an impact on. This paper aims to bring on the loop the main strengths and weaknesses that Romania has in the field of FDS and invites the readers interested on the topic to involve by providing feedback in order to improve this process in Romania.

Keywords: ISD; economic crisis; economic growth; global markets

JEL Classification: F21

1. Introduction

Given the dynamics of the global economy, foreign direct investment is one of the most active components of it, is a key factor in process of globalization. The surge in multinational company activity in the developing world has opened a new chapter in globalization. Developed countries are being integrated into the global economy through growing foreign investments (McKinsey, 2003).

This paper presents the main trends of international financial flows for the period 2008-2012, whereas in the context of economic globalization requires an overall analysis of country-specific FDI performance because it helps to the improvement and optimizing the strategies adopted by foreign transnational companies.

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Since foreign direct investment had an important role in stabilizing the macroeconomic processes in Romania, such as the revival of economic growth, we conduct a SWOT analysis in which we studied the performance of Romania in attracting these financial instruments.

At present, the concept of direct foreign investments knows a broad spectrum of definitions. The Organization for Economic Cooperation and Development defines direct foreign investment as: "investment carried out with the aim of establishing the long-lasting economic relationships, which makes it possible to exercise a significant influence over the management and which is carried out in the host country by non-residents, or abroad, by resident by: the creation, the extension of an undertaking, branches (owned as to 100 %) or purchase whole package of shares in an existing company; participation in a new company or existing; loans for a period of at least 5 years".

Under the aspect of parties involved direct foreign investment can be defined as " the relationship long-term investment made in the name and by personal effort by an investor in a State other than the resident or as a result of a contractual relationship between a resident entity and a non-resident entity and involves the exercise of significant management investor who invested enterprise"(Moldovan I, 2010).

The literature in the domain had focused on providing a theoretical rationale for FDI mainly through the industrial organization economics research stream; e.g. costs of doing business abroad and internalization (Hymer, 1960; Kindleberger, 1969), firm specific competitive advantages (Buckley and Casson, 1976; Caves, 1971), risk diversification (Rugman, 1979), product-life-cycle theory (Vernon,1966) and the eclectic paradigm (Dunning, 1980). Traditionally FDI trends have been analyzed through country-level FDI determinants such as economic and political stability, host government policies, market size, GDP, cultural distance, tax rates, wages, corruption, and production and transportation costs (Barkema and Vermeulen, 1998; Hofstede, 1980; Nigh, 1985; Sethi et al., 2003).

The institutional economics literature examines the government's role in providing a suitable environment for FDI through an open economy, stable currency and investment incentives (Noorbakhsh and Paloni, 2001; Woodward and Rolfe, 1993). As a result of the specialized literature study was considered necessary (interesting) performances evaluation Romania regarding ISD and to conduct a SWOT analysis.

2. The ISD Situation in the Actual Context

In the last decades of the twentieth century, foreign direct investment has been a farmer trend unprecedented. The highest level was reached in 2000, the next period being marked by a regression of foreign investment.

Between the years 2003-2007, international financial flows have resumed trend, until 2008, when the global economic crisis left its mark on the entire world economy, including on foreign direct investment. Negative effects had an impact especially on reducing access to sources of funding, which has affected the ability of firms to invest, and a tendency to companies to make investments, due gloomy perspective economy, markets and the risks. According to the report published by UNCTAD, "World Investment Prospects Survey 2009-2011, a young man aged 2009", 2009 represented a year of considerable reduction of flows ISD, their trend continued to be the same as in 2008.

In 2009 including big investors such as France, Germany and Japan have recorded declines of international financial flows, by subtracting the 46% compared with the same period in 2008 in emerging markets and 57% in developing countries. The results of year 2009 shows negative effects of ISD flows, reducing these being dramatic.

Also in the UNCTAD report shows that companies in emerging countries in Asia and the companies in North America that have done investment increases have been registered, because the business environment stable and policies favorable to foreign investments. In addition, they have been optimistic submits in respect of their own corporate investment in Japan and Europe. In addition, companies in Asia have proposed to expand their investments in the year 2011. 57% of the total Asian companies have managed to adopt strategies of internationalization.

The situation in Europe is quite different, because of economic crisis felt strongly by European countries. If the vision to companies in countries in Asia and North America is one optimistic, the one of the European countries is pessimist, especially due to the fact that it predicts a minor return expense ISD after falling to a minimum of the latter in 2009.

Particularizing the case of Europe, in the period 2008-2012, FDI remained at a relatively low level, and the year 2011 will be a replay of FDI flows, as one generally optimistic visions countries.

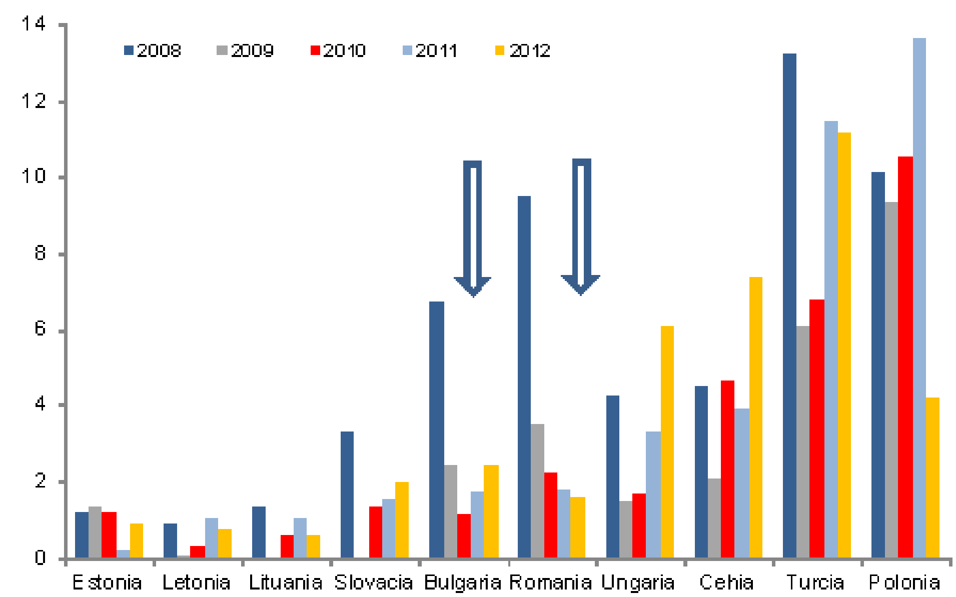

Figure 1. Annual flows of foreign direct investment (billion EUR)

Source: Eurostat, National Bank (BNR)

As shown in figure above it can be seen that 2009 represented aggravation of the effects of the year 2008, the class at large negative effects of financial crisis, and the year 2011 will represent a resume of flows ISD, visions of countries as one generally optimistic.

For the following period, a study conducted by Ernst & Young in 2012 relating to "European attractiveness survey ", the most attractive country in Europe concerning the infusion of foreign capital over the next three years, shall be in the following format:

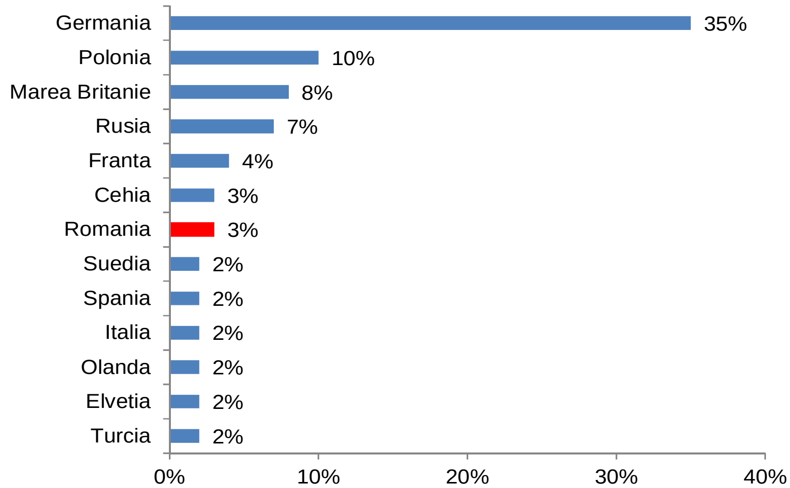

Figure 2. The most attractive country in Europe in the period 2013-2015

Source: Ernst & Young European attractiveness survey 2012

3. Analysis Romania's Performance in Attracting Foreign Direct Investment

Investment potential of our country has always been attractive to foreign investors but, the opportunities of penetration on the Romanian market have resulted from the year 1997, once with the modification of the legislation our country's reform and the beginning of the privatization of the state-run companies in the various industries in our country.

Foreign direct investments are dispersed in all sectors economy, and investors derived mainly from Europe. Starting with 2007, foreign direct investment in Romania is at a similar stage of maturity showing an upward trend, while maintaining country on the second position in the top member Eastern Europe, after Poland. The amounts of foreign investments in Romania have been recorded at an average value of 7.7 billion dollars (5.5 billion Euros), which ranks 30 in a world top conducted by the Economist Intelligence Unit (EIU, 2007). In 2008 Romania ranked first position among the most attractive country for investors from southern Europe, having a percentage of 52% of the total investments, followed by Turkey, Bulgaria and Greece. From the publication quoted documents show that in 2009, the percentage dropped to 36.4%, expected to up to 2013 the percentage direct foreign investments to reach 30 %. According to statistics of Romania's National Bank flows a situation direct foreign investment in Romania, period 2008-2012 relative shall be in the following format:

Table 1. Flow into foreign direct investment in Romania period 2008-2012 relative

Years - **Million Euros**	**Participation in the capital**	**Credits intra-group**
2008	4873	4623
2009	1729	1759
2010	1824	396
2011	1817	594
2012*	916	288
		Reinvested Profits
2012*		**73**

* Provisional data

Source: BNR reports

The flow rate foreign direct investment in Romania has been in 2008, 9496 million Euros (the largest value), arriving in the following year (decrease) to 3488 million Euros. Significant decline has registered and to credit intra-group (from 4623 million euro in 2008 to 396 million Euros in 2010). After provisional data of the central bank (BNR) in 2012, the value foreign flows direct investment amounted to 1204 million Euros, 73 million Euros reinvested profits.

3.1. SWOT Analysis on Romania's Performance in Attracting Direct Foreign Investments

STRENGTHS	WEAKNESSES
➢ Natural resources; ➢ Energy resources; ➢ Geographical position which gives Romania's potential in order to become a regional center developed between Western Europe, eastern Europe and Balkan countries;large workforce of low cost and with an acceptable level of initial education; ➢ Romania`s experience up to this moment in attracting foreign direct investments.	➢ Lack a stable business environment and policies favorable to foreign investments; ➢ Instability and economic policy with negative influence on the stability national economies ; ➢ Legal systems unpredictable; ➢ Poor progress of reforms; ➢ Still considered excessive bureaucracy; ➢ Underdeveloped administrative capacity or ineffective; ➢ Degraded infrasructure/ poor accesibility within an outside the country.
OPPORTUNITIES	**THREATS**
➢ Increased relations between countries in the context of globalization; ➢ Reducing disparities between Romania and other developt countries; ➢ Restructuring and upgrading national economy ; ➢ Ensuring sustained economic growth; ➢ Transfer of high technology and modern management in the member destination of foreign direct investment; ➢ Increase production and the quality of products, works and services as an offer in accordance with the standards of the developed countries; ➢ Creation of new places of work; ➢ Access to new markets. ➢ Foreign investors can bring a broad range of skills that enable them to improve domestic sector productivity and grow output.	➢ Grater exposure to competition in global markets; ➢ Other global economic downturns; ➢ Possible administrative corruption at all hierachical levels/ decision makers; ➢ Foundations for ecomonic development are critical ➢ Popular incentives to foreign investments are not the primary drivers of multinational company investment and instead can have negative and unintended consequences.

4. Conclusions and Recommendations

In our opinion, foreign direct investment had an important role in macroeconomic stabilization processes in our country and in re-launching economic growth, with all that the effects of driver and spread have not been recovered in full, causing some key points on which it is necessary to act.

Of these remember:

• create a stable business environment which is also reflected by legal systems and coherent tax policy very attractive to foreign investors, as well as: exemptions from the payment of the profit tax for a period of time, deduction of tax on the basis of the value of investments;
• creation of financial facilities such as granting loans with reduced interest;
• facilitating investors on the Romanian market by reducing excessive bureaucracy;
• development of infrastructure with a view to improving accessibility in the territory of the country;
• vocational guidance of human resources in areas which have as their objective to attract ISD through access to the "know-how" in order to implement and the administration of such tools investment.

Foreign direct investments help certainly local economy, making it possible to increase productivity and production in each of the sectors concerned, increasing at the same time national income as the price reductions and the improvement of the quality and supply of services and products for consumers. Foreign investments do not have proved to be beneficial only for the industry in which it has invested directly, but have caused the collateral positive effects for the whole economy. Because of numerous benefits of foreign direct investment, we consider that these are an essential element in the economic development of a country, an example in this aspect is even Romania.

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